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October 08, 2013

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**PROVIDER AGREEMENTS WITH HEALTH NET OF CALIFORNIA, INC.
(ALL SUPERVISORIAL DISTRICTS)
(3 VOTES)**

SUBJECT

Request delegated authority for contractual actions necessary to ensure participation by the County of Los Angeles, Department of Health Services (DHS) in the Medi-Cal Expansion under California's implementation of the Patient Protection and Affordable Care Act beginning January 1, 2014.

IT IS RECOMMENDED THAT THE BOARD:

1. Delegate authority to the Director of Health Services (Director), or his designee, to negotiate and execute a successor Provider Participation Agreement and new Hospital Services Agreement (collectively as "Provider Agreements") with Health Net of California, Inc. (Health Net), under capitated and fee-for-service payment arrangements for the Medi-Cal Managed Care Program, effective January 1, 2014 through December 31, 2018, subject to review and approval by County Counsel and notification to the Board of Supervisors (Board) and the Chief Executive Office.
2. Delegate authority to the Director, or his designee, to negotiate and execute future amendments to the Provider Agreements described in Recommendation Number 1 above to: (a) add other health insurance products that Health Net provides, such as, but not limited to, Medicare Advantage, Cal MediConnect, commercial, California Bridge Program, Covered California, (b) adjust reimbursement rates, division of financial responsibility, delegated functions and other rate related arrangements, (c) add provisions related to

Intergovernmental Transfers, (d) update and/or incorporate new State/federal law and regulations, County provisions and other regulatory/contractual requirements (e) make appropriate changes to contract language for clarity and efficiency (administrative, programmatic and operational), and (f) extend the term of the provider agreements, on a month-to-month basis, not to exceed twelve months, subject to prior review and approval by County Counsel.

3. Delegate authority to the Director, or his designee, to terminate the existing Medi-Cal Agreement H-210040 between DHS and Health Net effective upon the commencement date of the successor Providers Agreements indicated in Recommendation Number one above.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Background

The Patient Protection and Affordable Care Act (ACA) makes significant programmatic and regulatory changes in the provision of health care. One key ACA provision expands access to public and private insurance coverage in an effort to reduce the number of and rate of uninsured. Starting in 2014, certain individuals will be mandated to have health insurance. The ACA provides two mechanisms by which uninsured individuals will be able to obtain affordable health care coverage: (1) through state Medicaid programs or (2) via state health benefit exchanges.

There are an estimated 1.8 million uninsured residents in the County. Of those, an estimated 650,000 – 700,000 are either: (1) newly eligible for Medi-Cal as a result of the ACA or (2) currently eligible, but not enrolled in Medi-Cal. Within the Medi-Cal eligible population, over 255,000 are currently enrolled in Healthy Way LA and will transition into Medi-Cal on January 1, 2014.

The majority of Medi-Cal beneficiaries receive health care services through managed care delivery systems. In Los Angeles County, the State assures the provision of health care services through the “Medi-Cal Managed Care Two-Plan Model” by which beneficiaries have their services coordinated and overseen by one of two health plans that contract with the State and contract with local providers. The health plans are Health Net of California, Inc. and LA Care Health Plan (LA Care). The aforementioned 650,000 – 700,000 Medi-Cal eligibles in Los Angeles County will be enrolled in one of these two health plans, either by the eligible individual voluntarily selecting a plan, or the Medi-Cal program defaulting the individual into a plan if the eligible individual fails to select a plan.

Current Medi-Cal Provider Agreement with Health Net

The Department of Health Services (DHS) currently has contracts with both Health Net and LA Care to provide health services to their Medi-Cal managed care members. However, the existing Health Net agreement is limited in that it includes only three of DHS’ 23 non-school based primary care facilities, covers health care services for approximately 1,000 Medi-Cal members and requires updating. The current DHS/Health Net agreement does not allow for continuity of care for those DHS patients who may either select or be defaulted to Health Net. In addition, it does not enable DHS or Health Net to fully comply with the provisions of California enacted legislation to expand the Medi-Cal program (Senate Bill 1 [Hernandez] and Assembly Bill 1 [J. Perez]) or Assembly Bill 85.

In addition, DHS currently does not have a contractual mechanism to provide health services to individuals in other public or private health insurance programs that Health Net participates in. These include, but are not limited, to Cal MediConnect (for individuals who are dually enrolled in

Medi-Cal and Medicare), Covered California (for individuals purchasing health care coverage through California's health benefits exchange), Bridge Program (for individuals transitioning from Medi-Cal to Covered California due to income eligibility) and Medicare Advantage (for individuals receiving Medicare).

Approval of Recommendations

Approval of the first recommendation will allow DHS to enter into new Provider Agreements with Health Net for the provision of health care services to Medi-Cal beneficiaries who: (1) either select or are assigned to a DHS facility, and (2) have other Health Net providers, but receive out-of-network services from a DHS facility. Approval of this first recommendation will also enable DHS to fully participate in the Medi-Cal expansion by ensuring that it has contractual agreements with both Medi-Cal managed care health plans in Los Angeles County (Health Net and LA Care) which include DHS' entire provider network of hospitals, Multi-Service Ambulatory Care Centers (MACCs), comprehensive health centers, and health centers.

Approval of the second recommendation will permit DHS to participate in other health insurance programs and products (public and commercial) in which Health Net is the health insurance carrier. Approval of this recommendation will also permit DHS to amend the Provider Agreements in a timely manner for new reimbursement rates, changes in financial arrangements and delegated activities, provision of a funding mechanism for Intergovernmental Transfers between DHS, Health Net and State, changes in State and/or federal law and regulations, County and other regulatory or contractual requirements, clarification of contract language and other contract terms and conditions to ensure continued operational, administrative and programmatic efficiency and fiscal viability. Lastly, approval of this recommendation will allow DHS to extend the term of the agreements, on a month-to-month basis, not to exceed twelve months in order for DHS and Health Net to complete negotiations of amendments or new agreements.

It is important to emphasize that as DHS expands its relationship and enters into additional lines of business or programs with Health Net, certain administrative and programmatic functions (e.g., complex case management, nurse advice line, etc.) which DHS currently does not have or has limited infrastructure to support may need to be established or expanded. In addition, DHS may, upon mutual agreement with Health Net, take on financial responsibility for services that are not currently available or have limited capacity. In such events, the DHS will seek Board approval or delegated authority to enter into new agreements with appropriate service providers and/or amend existing service agreements to ensure compliance with any financial responsibility of services that cannot be directly provided by DHS.

Implementation of Strategic Plan Goals

The recommended actions support Goal 2, Fiscal Sustainability and Goal 3, Integrated Services Delivery, of the County's Strategic Plan.

FISCAL IMPACT/FINANCING

The Provider Agreements with Health Net, to be executed under the Director's delegated authority, are intended to maximize revenue needed to support the DHS as a safety net provider, under which

DHS provides health services to Health Net members who have a DHS primary care provider/clinic. These monies will come from contractually negotiated capitation and fee-for-service payments made by Health Net to DHS on a monthly basis. State law requires timely payment of complete and accurate hospital claims, assuring continuous cash flow. Further, all DHS hospitals, MACCs, comprehensive health centers, and health centers will be listed in the Health Net Provider Directory as a participating network provider.

The capitation and fee-for-services rates to be negotiated with Health Net are confidential and subject to Section 1457 of the Health and Safety Code. This information will be provided to the Board under a separate confidential memorandum.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Medi-Cal Expansion

In June 2013, California enacted legislation to expand the Medi-Cal program (Senate Bill 1 [Hernandez] and Assembly Bill 1 [J. Perez]) consistent with ACA eligibility and enrollment provisions. In addition, the State enacted Assembly Bill (AB) 85 modifying some aspects of the Medi-Cal Managed Care Program. AB 85 requires, among other provisions, that health plans operating in Medi-Cal managed care two-plan model counties assign 75% of all newly eligible Medi-Cal beneficiaries that are defaulted to the health plan by the State Medi-Cal Program be assigned to a provider or clinic in the public hospital delivery system.

County's Relationship with Health Net

On February 16, 1999, the DHS entered into a Medi-Cal Managed Care Program provider agreement with Universal Care, Inc. (Universal Care) under both capitation and fee-for-service payment arrangements (H-210040). While the fee-for service arrangement of the agreement applies to all DHS facilities and clinics for Health Net members with other primary care providers, the capitation arrangement is limited to only three DHS facilities: El Monte Comprehensive Health Center, H. Claude Hudson Comprehensive Health Center and Edward R. Roybal Comprehensive Health Center.

Health Net acquired Universal Care effective April 1, 2006. On March 31, 2006, DHS executed Amendment No. 1 to assign and delegate the agreement to Health Net. The term of this existing agreement has remained "evergreen," renewing automatically for successive one year periods. Either party may terminate the agreement, with or without cause, by giving at least 180 (one hundred and eighty) calendar days prior notice of termination to the other party.

Agreement amendment numbers two to eight for various time periods starting October 1, 2008 through May 1, 2014 cover supplemental payments in the form of Intergovernmental Transfers between DHS and Health Net.

Agreement Negotiations

As with other payor contracting, DHS will use the standard provider agreement template agreement provided by Health Net in order to expedite negotiations and execution of the Provider Agreements. Such contractual documents will comply with State law and the required provisions set forth by the California Department of Managed Care. These standard agreements will contain mutual indemnification clauses and require use of binding arbitration to resolve disputes.

CONTRACTING PROCESS

Delegated authority to enter into the Health Net Provider Agreements does not require DHS to undergo a competitive contracting process to determine which health plan DHS enters into agreements with or provider network participation. This is because the State Department of Health Services held a competitive process to determine which health plans operate under Medi-Cal managed care in Los Angeles. In order to participate in Medi-Cal managed care in Los Angeles, DHS must enter into agreements with the two health plans that have contracts with the State Department of Health Services. These two State contracted health plans are Health Net and LA Care.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Successful implementation of the recommended actions will prepare the Los Angeles County for the implementation of the health insurance expansion provisions under the ACA that go into effect on January 1, 2014.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mitchell Katz". The signature is fluid and cursive, with the first name "Mitchell" written in a larger, more prominent script than the last name "Katz".

Mitchell H. Katz, M.D.

Director

MHK:ln

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors